



# **The Iranian Crisis: The Global Economic Impact of a Complete Oil Export Shutdown and Some Political Ramifications**

7 December 1979

**Secret**

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Approved For Release 2006/02/07 : CIA-RDP81B00401R000400050018-7

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Summary

A complete shutdown in Iranian oil production for a lengthy period would all but eliminate any chance of significant positive economic growth in the world economy next year. The loss of 2-3 million b/d in Iranian exports would drive world oil prices up substantially, perhaps beyond \$40 per barrel. Such an oil-price hike would seriously heighten inflationary pressures and weaken non-OPEC balance-of-payments positions. [REDACTED]

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The developed world would be hardest hit by any oil shortfall. Under the best of circumstances, the OECD would move into a full-fledged recession with inflation returning to peak 1974 levels. The size of the likely oil-price shock that would follow an Iranian shutdown, coupled with fears over possible output losses elsewhere could spark a strong psychological reaction that would intensify the economic slowdown. [REDACTED]

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The non-OPEC LDCs would see their hopes for further economic development seriously hurt by a full shutdown in Iran. The group's overall inflation rate would probably top 50 percent -- compared to a projected 40 percent in 1979 -- while real economic growth at 4 percent or less would post its lowest gains in 20 years. Like many of the smaller OECD countries, numerous non-OPEC LDCs would find it increasingly difficult to finance their mounting oil bill, especially in the face of a global slowdown in world trade. In the short run, the IMF would be able to render substantial assistance in softening the blow, but the private capital markets would be required to bear the principal brunt of additional financing needs. [REDACTED]

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The loss of Iranian oil would cause a major readjustment in the pattern of world oil trade and, in the process, increase the risk of substantially intensifying international tensions. If Tehran unilaterally cut production, however, cooperation among major industrial countries could increase, including joint sanctions against the Khomeini regime. [REDACTED]

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Prospects for cooperation would be greatly reduced if an oil cutback resulted from US unilateral actions. Such US actions would likely raise a storm of protest from major foreign oil importers and likely trigger the full IEA Emergency Sharing System. If the members governments fail

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to live up to their IEA pledges, the readjustment to lowered oil output would be largely shifted to the spot market -- raising the specter of fierce bidding for the reduced oil supplies. Pressures would also mount on non-OPEC oil producers to up output, likely leading to a further deterioration in intra-OECD and US-LDC relations. This discord could easily spill over into other key strategic concerns, including NATO relationships and the North-South dialogue. [REDACTED]

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